Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Norfolk County
Contributory Retirement System
For the Four-Year Period
January 1, 1999 - December 31, 2002
PERAC 2002: 09-010-05

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The Public Employee Retirement Administration Commission has completed an examination of the **Norfolk County** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Mary Dundas, James T. Sweeney, and Patrick H LePage who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton Executve Director

## **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

### 1. Certified Listing Of Assets

The certified listing of assets as of December 31, 2002, provided by the custodian bank, does not agree with some of the Annual Statement accounts. The affected accounts are Cash, Short-Term Investments, Pooled International Equity Funds, Pooled Alternative Investments/Private Equity, and Pooled Real Estate Funds.

#### Recommendation:

The affected accounts listed above should be reviewed and reconciled to the custodian statement and an explanation provided for any variance.

#### **Board Response:**

<u>Cash:</u> The two local bank cash accounts have been reviewed and reconciled as of 12/31/02. Adjusting entries have been booked to the system's FY 2003 general ledger. As such, the January 1, 2003 opening trial balance's custodian cash and short term investment accounts are in agreement with the 12/31/2002 custodian statement.

<u>Short Term Investments:</u> The custodian statement has been reviewed and reconciled as of 12/31/2002. Adjusting entries have been booked to the system's FY 2003 general ledger. As such, the January 1, 2003 opening trial balance's custodian cash and short term investment accounts are in agreement with the 12/31/2002 custodian statement.

<u>Pooled International Equity Funds:</u> The certified listing of assets provided by the custodian bank as of January 17, 2003 differs from the Annual Statement accounts because the custodial listing originally reflected unadjusted values as of December 31, 2002. A revised set of year-end values were subsequently provided by the custodian when the investment schedules were delivered. These are the values that are reflected on the Annual Statement. A detailed reconciliation document identifying the variances between the original custodial statement and the final Schedule 5 has been prepared and submitted to PERAC for their review.

<u>Pooled Alternative/Private Equity Funds:</u> The certified listing of assets provided by the custodian bank as of January 17, 2003 differs from the Annual Statement accounts because the custodial listing originally reflected unadjusted values as of December 31, 2002. A revised set of values were subsequently provided by the custodian when the investment schedules were delivered. These are the values that are reflected on the Annual Statement. A detailed reconciliation document identifying the variances between the original custodial statement and the final Schedule 5 has been prepared and submitted to PERAC for their review.

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

# FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

<u>Pooled Real Estate Funds:</u> The certified listing of assets provided by the custodian bank as of January 17, 2003 differs from the Annual Statement accounts because the custodial listing originally reflected unadjusted values as of December 31, 2002. A revised set of values were subsequently provided by the custodian when the investment schedules were delivered. These are the values that are reflected on the Annual Statement. A detailed reconciliation document identifying the variances between the original custodial statement and the final Schedule 5 has been prepared and submitted to PERAC for their review.

### 2. Annual Statement Review

The fund accounts should not report negative balances. The ending balance for the Pension Fund as of December 31, 2002 indicates a negative balance of \$7,915,673.69.

The Annuity Savings Fund balances did not agree with the Supplementary Membership Schedule for 1999 through 2002. The majority of the difference at the end of 2002 is related to the amount of interest posted to the members' accounts versus the general ledger.

Accounts Receivable and Accounts Payable reported on the 2002 Annual Statement do not agree with schedule A.

Some of the line items on the investment income page of the Annual Statement did not agree with the information provided in the required investment schedules, specifically Investment Income Received From: Cash, Short-Term Investments, and Commission Recapture (1999, 2000, 2001 and 2002); gains/losses and increases/decreases in market value (1999, 2000, and 2002). Amounts reported on the Annual Statements must be verifiable on supporting schedules.

The membership exhibit numbers were incorrect for 1999, 2001 and 2002 (membership exhibit numbers for 2002 were not available). The errors included the current year's beginning numbers not matching the ending numbers from the prior year, and the year-end retiree breakdown not agreeing with the beginning amount plus retirements less deaths and terminations.

#### **Recommendation:**

In order to correct the negative balance in the Pension Fund, a letter should be sent to PERAC's Actuarial Unit requesting a transfer from the Pension Reserve Fund to the Pension Fund to make up for this non-cash deficit (G.L. c. 32, § 22(3)(b)). An accounting entry will be required to correct the general ledger.

The Annuity Savings Fund balance needs to be corrected to agree with the Supplementary Membership Schedule.

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

Schedule A for 2002 needs to be corrected to agree with the amounts reported on the Assets and Liabilities page of the Annual Statement.

The investment schedules should be compared to the investment income page and any variances should be reconciled. The custodian bank prepares these investment schedules for the Retirement Board and is missing information for accounts they do not have custody of, such as bank accounts and commission recapture. The Board may want to consider providing the custodian bank with the details for these accounts and request that the custodian include this information in the year-end investment schedules.

Membership exhibits should be reviewed for accuracy. If there is a programming problem, the software vendor should be informed and a correction to the system requested.

Corrected copies of Schedule A and Investment Schedules should be sent to PERAC's Investment Unit. The copies must be clearly labeled as corrected copies. Prior to submission of the 2003 Annual Statement to PERAC, the Board should implement a review process to verify all appropriate line item amounts in the Annual Statement, to ensure a complete and accurate representation of the System. If necessary, differences in custodian-provided schedules should be reconciled to the amounts reported on the statement.

### 3. Cash Reconciliation

The System's three cash accounts have apparently not been reconciled since November of 2001. Two of these accounts have unreconciled balances exceeding \$3,000,000. These differences are primarily the result of outstanding check lists not being maintained, deposits and transfers between funds not being recorded, and errors in accounting such as: duplicate entries, missing entries, and errors in the dollar amounts of checks issued.

#### **Recommendation:**

The Treasurer shall be the custodian of the retirement system's funds as outlined in G.L. c. 32, § 23(2)(a). Bank statements must be: reconciled to the System's general ledger monthly, reviewed by the Treasurer and the Executive Director, and accepted by the Board at the subsequent meeting. The Board must comply with 840 CMR 25.13, which states that bank accounts must be reconciled by someone other than the employee who receives and/or disburses cash. A listing of outstanding checks must be attached to the bank reconciliations. Any items older than six months should be researched, so that the proper voiding and recording of these items can be completed. The retirement office should make any needed adjusting journal entries on a monthly basis for the accuracy of accounting records. Because these accounts have not been reconciled for an extended period of time, we recommend that the Board hire a consultant to reconcile the System's bank accounts to date.

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### **Board Response:**

As recommended, a consultant has been hired by the Board to reconcile the accounts. All accounts have been reconciled and outstanding check listings prepared for each month from the date of the last PERAC audit (December 31, 1998) through the end of the current audit period (12/31/2002). The Board has reviewed the documents associated with this effort. The monthly reconciliations are now available for PERAC's review.

During FY 2004 the system's staff will make the appropriate effort to research the outstanding list. The FY 2003 end-of-year records will reflect some of the staff's activity associated with the resolution of checks outstanding for more than six months. As of 2004, the Board has complied with, and will continue to comply with, the provisions of 840 CMR 25.13, by having one employee receive cash, another disburse, and a third reconcile the accounts. The Board will receive the cash reconciliation document at their monthly meeting.

## 4. Annuity Reserve Fund Interest

The 2002 Annuity Reserve Fund interest calculation was overstated by \$68,292.47. The calculation appears to ignore the monthly activity from account #5750 Annuities Paid and #5759 Option B Refunds.

#### **Recommendation:**

An adjusting entry is needed to correct the January 1, 2003 beginning balance by the amount of excess interest recorded to the Annuity Reserve Fund (debit Annuity Reserve Fund \$68,292.47 and credit Pension Reserve Fund \$68,292.47).

The beginning balance for Annuity Reserve Fund at January 1, 2003 should be \$42,723,419.18. The Executive Director should ensure that this amount is used as the beginning balance when calculating the current year's (2003's) Annuity Reserve Fund interest.

# **Board Response:**

The 12/31/2002 Annuity Reserve Fund interest calculation has been reviewed and reconciled as of 12/31/2002. Adjusting entries have been booked to the system' FY 2003 general ledger. As such, the January 1, 2003 opening trial balance reflects the accurate opening balance. The FY 2003 calculation will be prepared properly.

### 5. Expenses

Receipts for some travel reimbursements paid in 2002 were insufficient for verifying the expenses incurred. Most of the travel vouchers and accompanying receipts were not on record for Board member travel expenses paid between 1999 and 2001.

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

On the August 2002 expense warrant, the Board approved payment of bills for legal services in the amount of \$129,874.90. These invoices were for services performed between 10/7/97 and 3/29/02. The law firm received \$129,874.90 in August of 2002. On the September 2002 expense warrant, the Board approved payment of additional bills for legal services in the amount of \$118,465.31. These invoices were for services performed between 10/7/97 and 12/31/01. The law firm received \$118,465.31 in October of 2002. A review of these bills revealed that most of the charges were duplicates of the ones paid in August. The duplicate billings totalled approximately \$110,000. The Board has not accounted for these duplicate payments, and has paid subsequent invoices to the same firm, instead of applying the overpayment to later invoices.

The Board does not prepare annual budgets, pursuant to G.L. c. 32, 22(5).

#### **Recommendation:**

Board members must submit travel vouchers with detailed receipts, so that charges can be validated. The Board adopted PERAC's travel regulations on October 18, 2003.

The Board must complete an accounting of this law firm's legal billings. They must also require monthly invoices from the law firm, and submit them for approval at Board meetings, whether or not there is a balance due. The Board should receive and review a statement of its account with the law firm monthly, and compare it to its own records. The Board must request a refund of its overpayment.

The Board must annually prepare a budget for submission and approval at a Board meeting prior to expenditures being made.

#### **Board Response:**

<u>Travel Expenses:</u> As noted above, the Board adopted PERAC's travel regulations on October 18, 2003. Given the new regulations, the system is requiring and more closely reviewing travel vouchers and receipts. The travel vouchers and accompanying receipts for Board member travel expenses paid between 1999 and 2001 have been located and are available for PERAC's review.

<u>Legal Service Expenses:</u> Between October 1997 and March 2002, the Board's law firm did not submit bills for payment on either the retainer account or the non-retainer account. When the law firm initially billed the Retirement System, they billed the four years on one bill for the retainer account and on one bill for the non-retainer account.

At the Board meeting in August 2002, the board authorized payment, but requested that the law firm submit a breakdown of the bills for each fiscal year. At that time, a payment of \$127,213.50 was made against the non-retainer account and a payment of \$2,661.40 was made against the retainer account.

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

When the yearly breakdowns were submitted, additional payments were made in October 2002 on the non-retainer account in the amount of \$14,179.54, and in the amount of \$104,285.77 on the retainer account.

Additional legal payments were not made by the Board again until April of 2003. An accounting of the law firm's legal billings indicated that two payments were made towards the same statement balance. However, when such payments were applied to outstanding bills, the Board was still at times in arrears. As of December 31, 2003, the accounting of the legal billings indicated that the Board was not owed a refund, but owed the law firm \$19,906.05 on the retainer account and \$14,221.91 on the non-retainer account. The final payment for FY 2003's legal services has been made by the Board to the law firm. The firm is now submitting monthly bills for review and payment by the Board.

Annual Budgets: A budget for 2004 has been submitted and approved by the Board

### 6. Refunds

A review of twenty-two refunds issued between 1999 and 2002 found eleven errors. There were four instances wherein members' withdrawal applications were inconclusive as to whether the member's termination was voluntary, four instances where the two-year interest rule was incorrectly applied, two instances in which the member did not have sufficient creditable service to warrant the percentage of interest refunded, and one instance of taxes not being withheld on the member's refund.

#### **Recommendation:**

Members' withdrawal applications must be completed in their entirety, so that no information is left open to questioning, and accurate refunds can be issued. The Executive Director should review members' refunds prior to their issuance for completeness and accuracy in all respects. He should confirm that the two-year interest rule is applied correctly, particularly as it pertains to members who have left their funds in the System for more than two years.

#### **Board Response:**

The Board has made arrangements with their software vendor to acquire and train the staff to utilize an enhanced refund application. This implementation will occur during FY 2004. The Executive Director shall review all applications for completeness and proper calculations.

#### 7. Members' Accounts

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The sample yielded a 20% error rate. There was a

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

9% error rate in the base deduction rate, and an 11% error rate in the additional 2% deduction for incomes over \$30,000. Errors were detected in 40% of the member units.

There are approximately 40 members employed in two or more units within the System. Seven of these were included in the sample; all had errors with the additional 2% deduction for incomes over \$30,000. The additional 2% was not withheld on total earnings over \$30,000.

#### **Recommendation:**

The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC MEMO # 43/1999, defining 2% additional deductions. The Board should initiate a system of obtaining detailed payroll information from each of the units, including the following member information:

- 1. Name
- 2. Social Security number or employee number
- 3. Compensation by type: total, regular, overtime, and other
- 4. Contribution amount
- 5. Additional 2% contribution
- 6. Contribution rate
- 7. Membership date
- 8. Any other information deemed appropriate

This data must be routinely reviewed by the Board to ensure proper deductions are being withheld. Unit Treasurers or other disbursing officers in charge of payroll must certify to the Board that deductions were taken in accordance with the provisions of G.L. c. 32, § 22.

The Board must identify and monitor the contributions of members who are employed by more than one unit and ensure that these members are paying the correct contributions based on their membership dates, and their annualized salaries.

A training program should be set up for all payroll personnel, including representatives from outside payroll services. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations or other changes involving eligibility or contribution rates.

#### **Board Response:**

The Board recognizes that obtaining detailed and consistent payroll information from member units is difficult, and that such difficulties are common to regional and county retirement systems with large numbers of member units. Notwithstanding this, the Board will work with member units to obtain uniform, detailed payroll information.

# **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

As such, the Board is preparing a certification form, to be completed by the Treasurers of the units within the retirement system, whereby they certify in writing that the employee payroll data remitted to the retirement system is accurate, correct, and in accordance with the provisions of G.L. c. 32, § 22. Member units will be advised that a signature, not a stamp, will be required on the certification.

The Board will identify and monitor contributions of members who are employed by more than one unit and ensure that correct contributions are being made by such members.

The Board has scheduled a system-wide meeting of all payroll clerks of member units to provide training and training materials, e.g. PERAC Memorandums, on membership deductions, including the additional 2% withholding. Member units will also be asked to advise the Board of staff changes so that proper outreach and training can be provided by Retirement Board staff. Additionally, the Board plans to develop a web site that will provide information to payroll clerks relative to deductions.

#### 8. Minutes

The minutes of Board meetings were reviewed for the period January 27, 1999 through September 24, 2003. The minutes from January 1999 through December 2001 have been bound. The Board plans on binding the minutes in three-year periods so the subsequent minutes will be bound after December 2004.

The bound books appear to contain all minutes from open sessions and executive sessions. However, the record does not indicate the Board making a determination on whether Executive Session minutes need to be kept confidential (840 CMR 25.31(10)).

The Retirement Board does not use pre-numbered pages for the minutes of Retirement Board meetings. Instead, each meeting is separately numbered indicating the date of the meeting and page numbers for the specific meeting (i.e. 2,3,4,5).

Board members are not presented a cash reconciliation or trial balance from the general ledger to review each month. Not all staff changes have been noted in the minutes.

#### **Recommendation:**

The Board needs to make a determination and note in the minutes if such executive sessions need not remain confidential. If no such vote is made, then the board needs a formal plan for keeping the bound executive session minutes confidential.

Pursuant to PERAC Regulation 840 CMR 25.31(2), the Retirement Board must pre-number pages or initial individual pages.

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

The minutes should note that the Board is presented with a monthly trial balance and cash reconciliation for review. Also, in addition to salary increases that are approved and noted in the minutes, the Board should formally acknowledge all changes in staff (840 CMR 25.31(3)).

### **Board Response:**

The Board has adopted a policy relative to the release of executive session minutes to the public. The policy provides that at the executive session where the minutes of the prior executive session are accepted, the Board shall take a vote as to which portion or portions of the accepted minutes shall be released. The Board will also consider regularly whether the need for secrecy has abated with respect to any undisclosed portions of previous executive session minutes.

In conformance with the policy, the Board has voted to release undisclosed portions of all executive session minutes up to December 31, 2001.

The Board is now numbering meeting minutes for individual meetings as follows: "Page x of x Pages". When bound, the first page of the bound book is stamped as page 1, and each page is sequentially numbered. Blank pages, required during the binding process, are stamped to note that they are intentionally left blank.

The Board will be presented a monthly trial balance and cash reconciliation at each meeting.

#### Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

	FOR TI	HE PERIOD END	ING DECEMBEI	2 31
ASSETS	2002	2001	2000	1999
Cash	\$11,455,770	\$4,993,786	\$1,181,663	\$1,733,082
Short Term Investments	1,388,377	10,023,134	9,424,245	9,628,822
Fixed Income Securities	89,729,649	129,633,075	128,213,990	120,610,221
Equities	123,666,584	149,565,971	169,426,917	155,554,903
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	24,918,203	31,444,735	17,049,333	21,971,950
Pooled International Equity Funds	9,116,651	19,838,444	23,223,720	27,280,367
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	35,943,121	0	0	0
Pooled International Fixed Income Funds	17,761,296	14,557,829	15,102,898	15,964,213
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	15,401,315	16,531,655	18,025,052	12,395,592
Pooled Real Estate Funds	13,801,936	13,688,617	7,812,215	7,169,840
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	1,349,041	2,066,535	2,201,496	1,951,126
Accounts Receivable	2,163,773	2,448,086	2,760,822	1,590,065
Accounts Payable	(736,736)	(2,078,881)	(3,491,819)	(4,203,389)
TOTAL	\$345,958,980	\$392,712,986	\$390,930,534	\$371,646,793
FUND BALANCES				
Annuity Savings Fund	\$135,784,525	\$128,719,151	\$119,106,776	\$110,066,540
Annuity Reserve Fund	42,791,712	38,219,402	36,491,367	35,240,959
Military Service Fund	26,025	25,666	25,139	24,622
Pension Fund	(7,915,674)	886,502	5,473,179	11,063,788
Expense Fund	0	0	0	0
Pension Reserve Fund	175,272,392	224,862,265	229,834,074	215,250,885
TOTAL	\$ <u>345,958,980</u>	\$ <u>392,712,986</u>	\$ <u>390,930,534</u>	\$371,646,793

# STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$102,519,469	\$32,829,523	\$24,115	\$15,197,339	\$0	\$190,566,020	\$341,136,466
Receipts	15,521,947	\$1,015,381	506	21,340,675	3,096,512	24,711,549	65,686,571
Interfund Transfers	(5,479,240)	5,505,925	0	0	0	(26,685)	0
Disbursements	( <u>2,495,636</u> )	(\$4,109,869)	<u>0</u>	(25,474,227)	(3,096,512)	<u>0</u>	( <u>35,176,244</u> )
Ending Balance (1999)	110,066,540	\$35,240,959	24,622	11,063,788	0	215,250,885	371,646,793
Receipts	16,511,981	1,042,300	517	20,965,697	2,533,614	14,583,189	55,637,300
Interfund Transfers	(4,578,994)	4,576,475	0	2,519	0	0	(0)
Disbursements	( <u>2,892,751</u> )	( <u>4,368,367</u> )	<u>0</u>	(26,558,826)	( <u>2,533,614</u> )	<u>0</u>	( <u>36,353,559</u> )
Ending Balance (2000)	119,106,776	36,491,367	25,139	5,473,179	0	229,834,074	390,930,534
Receipts	17,819,382	1,096,625	527	24,758,761	2,738,171	(4,971,809)	41,441,656
Interfund Transfers	(5,269,479)	5,262,173	0	7,306	0	0	0
Disbursements	( <u>2,937,527</u> )	( <u>4,630,762</u> )	<u>0</u>	(29,352,744)	(2,738,171)	<u>0</u>	(39,659,204)
Ending Balance (2001)	128,719,151	38,219,402	25,666	886,502	0	224,862,265	392,712,986
Receipts	18,124,482	1,214,858	359	22,197,924	2,587,957	(49,588,556)	(5,462,975)
Interfund Transfers	(8,454,940)	8,456,257	0	0	0	(1,317)	0
Disbursements	(2,604,168)	(5,098,806)	<u>0</u>	(31,000,100)	(2,587,957)	<u>0</u>	( <u>41,291,031</u> )
Ending Balance (2002)	\$ <u>135,784,525</u>	\$ <u>42,791,712</u>	\$ <u>26,025</u>	( <u>\$7,915,674</u> )	\$ <u>0</u>	\$ <u>175,272,392</u>	\$ <u>345,958,980</u>

# **STATEMENT OF INCOME**

	FOR TH	HE PERIOD END	ING DECEMBEI	R 31,
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$15,409,090	\$14,215,169	\$13,132,718	\$12,028,537
Transfers from other Systems	1,024,541	1,235,008	1,007,190	1,047,451
Member Make Up Payments and Redeposits	475,993	198,731	141,471	275,428
Investment Income Credited to Member Accounts	1,214,858	2,170,474	2,230,602	2,170,532
Sub Total	18,124,482	17,819,382	<u>16,511,981</u>	<u>15,521,947</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	1,214,858	<u>1,096,625</u>	<u>1,042,300</u>	<u>1,015,381</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	745,015	666,232	590,189	543,667
Received from Commonwealth for COLA and	,	,	,	,
Survivor Benefits	1,711,020	1,788,877	1,896,076	2,021,882
Pension Fund Appropriation	19,741,889	22,303,652	18,479,432	18,775,126
Sub Total	22,197,924	24,758,761	20,965,697	21,340,675
Military Service Fund:				
Contribution Received from Municipality on Account				
of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>359</u>	<u>527</u>	<u>517</u>	<u>506</u>
Sub Total	<u>359</u>	<u>527</u>	<u>517</u>	<u>506</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	2,587,957	2,738,171	2,533,614	3,096,512
Sub Total	<u>2,587,957</u>	<u>2,738,171</u>	<u>2,533,614</u>	3,096,512
Pension Reserve Fund:				
Federal Grant Reimbursement	33,314	25,995	20,680	11,721
Pension Reserve Appropriation	0	88,775	60,914	83,670
Interest Not Refunded	39,140	24,441	43,583	38,029
Excess Investment Income	(49,661,010)	(5,111,020)	14,458,013	24,578,130
Sub Total	(49,588,556)	( <u>4,971,809</u> )	14,583,189	24,711,549
TOTAL RECEIPTS	( <u>\$5,462,975</u> )	\$ <u>41,441,656</u>	\$ <u>55,637,300</u>	\$ <u>65,686,571</u>

# STATEMENT OF DISBURSEMENTS

	FOR TH	IE PERIOD END	ING DECEMBER	2 31
Annuity Savings Fund:	2002	2001	2000	1999
Refunds to Members	\$1,200,854	\$1,219,656	\$1,407,890	\$1,615,889
Transfers to other Systems	1,403,315	1,717,871	1,484,861	879,748
Sub Total	2,604,168	2,937,527	2,892,751	2,495,636
	2,004,100	2,731,321	2,072,731	2,475,050
Annuity Reserve Fund: Annuities Paid	5,050,488	4,615,454	4,238,471	3,956,525
Option B Refunds	48,317			
-	<del></del>	15,308	129,897	153,344
Sub Total	<u>5,098,806</u>	4,630,762	4,368,367	4,109,869
Pension Fund:				
Pensions Paid				
Regular Pension Payments	21,754,856	28,094,431	18,915,381	17,310,985
Survivorship Payments	1,854,494		1,514,934	1,431,997
Ordinary Disability Payments	567,918		538,941	463,516
Accidental Disability Payments	5,394,757		4,329,707	4,261,388
Accidental Death Payments	851,630		764,686	716,562
Section 101 Benefits	139,467		119,533	105,884
3 (8) (c) Reimbursements to Other Systems	436,979	1,258,313	375,643	1,183,895
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	31,000,100	29,352,744	26,558,826	25,474,227
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	12,000	9,000	12,000	12,000
Salaries	357,442	334,084	308,352	294,592
Legal Expenses	248,340	50,000	50,000	52,392
Medical Expenses	0	0	0	0
Travel Expenses	22,291	14,929	23,286	33,048
Administrative Expenses	187,533	183,402	145,710	149,411
Furniture and Equipment	0	0	0	0
Management Fees	1,276,370	1,695,321	1,502,955	2,165,570
Custodial Fees	423,981	331,434	391,728	259,082
Consultant Fees	60,000	120,000	99,583	130,417
Sub Total	2,587,957	2,738,171	2,533,614	3,096,512
TOTAL DISBURSEMENTS	\$ <u>41,291,031</u>	\$ <u>39,659,204</u>	\$ <u>36,353,559</u>	\$ <u>35,176,244</u>

# **INVESTMENT INCOME**

	FOR TH	E PERIOD ENDI	NG DECEMBER	31.
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$182,504	\$30,338	\$41,958	\$72,711
Short Term Investments	11,415	353,725	589,862	1,069,806
Fixed Income	8,495,244	10,389,090	9,768,260	66,101
Equities	1,307,991	1,762,276	1,725,965	10,150,141
Pooled or Mutual Funds	1,619,615	1,508,386	1,851,687	1,350,580
PRIT Fund	0	0	0	0
Commission Recapture	180,315	135,069	108,824	79,852
TOTAL INVESTMENT INCOME	11,797,083	14,178,883	14,086,557	12,789,191
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	14,647,747
Realized Gains	11,326,820	25,714,068	40,619,948	25,554,080
Unrealized Gains	16,253,329	19,967,188	23,392,622	21,945,160
Interest Due and Accrued on Fixed Income Securities -				
Current Year	1,349,041	2,066,535	2,201,496	1,951,126
Sub Total	28,929,190	47,747,791	66,214,066	64,098,113
Less:				<u> </u>
Decrease in Amortization of Fixed Income Securities	0	0	0	(10,442,523)
Paid Accrued Interest on Fixed Income Securities	(781,161)	(964,904)	(855,581)	(887,255)
Realized Loss	(38,819,880)	(27,178,129)	(28,801,311)	(21,708,126)
Unrealized Loss	(43,701,674)	(30,687,369)	(28,427,557)	(10,851,646)
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend Interest Due and Accrued on Fixed Income Securities -	0	0	0	0
Prior Year	(2,066,535)	( <u>2,201,496</u> )	( <u>1,951,126</u> )	(2,136,693)
Sub Total	(85,369,250)	$(\underline{61,031,898})$	$(\underline{60,035,575})$	( <u>46,026,244</u> )
NET INVESTMENT INCOME	(44,642,977)	894,777	20,265,047	30,861,060
Income Required:				
Annuity Savings Fund	1,214,858	2,170,474	2,230,602	2,170,532
Annuity Reserve Fund	1,214,858	1,096,625	1,042,300	1,015,381
Military Service Fund	359	527	517	506
Expense Fund	2,587,957	2,738,171	2,533,614	3,096,512
TOTAL INCOME REQUIRED	5,018,033	6,005,797	5,807,034	6,282,931
Net Investment Income	(44,642,977)	894,777	20,265,047	30,861,060
Less: Total Income Required	5,018,033	6,005,797	5,807,034	6,282,931
EXCESS INCOME TO THE PENSION			<del></del>	
RESERVE FUND	( <b>\$49,661,010</b> )	( <b>\$5,111,020</b> )	\$ <u>14,458,013</u>	\$ <u>24,578,130</u>

### STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE* MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*							
Cash	\$11,455,770	3.34%	100							
Short Term	\$1,388,377	0.40%	100							
Fixed Income	\$89,729,649	26.15%	35 - 80 **							
Equities	\$123,666,584	36.04%	69 ***							
Pooled Short Term Funds	\$0	0.00%								
Pooled Domestic Equity Funds	\$24,918,203	7.26%	69 ***							
Pooled International Equity Funds	\$9,116,651	2.66%	69 ***							
Pooled Global Equity Funds	\$0	0.00%								
Pooled Domestic Fixed Income Funds	\$35,943,121	10.47%	35 - 80 **							
Pooled International Fixed Income Funds	\$17,761,296	5.18%	35 - 80 **							
Pooled Global Fixed Income Funds	\$0	0.00%								
Pooled Alternative Investment Funds	\$15,401,315	4.49%	5							
Pooled Real Estate Funds	\$13,801,936	4.02%	10							
Pooled Domestic Balanced Funds	\$0	0.00%								
Pooled International Balanced Funds	\$0	0.00%								
PRIT Cash Fund	\$0	0.00%								
PRIT Core Fund	\$0	<u>0.00</u> %	100							
GRAND TOTALS	= 1=	<u>100.00</u> %								
	** Total Fixed Income including International Fixed Income not to exceed 7%  *** Total Equities not to exceed 69% including International Equities not to exceed 21%									

For the year ending December 31, **2002**, the rate of return for the investments of the **Norfolk County** Retirement System was -11.91%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Norfolk County** Retirement System averaged 2.06%. For the eightteen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Norfolk County** Retirement System was 9.28%.

<sup>\*</sup> The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

## SUPPLEMENTARY INVESTMENT REGULATIONS

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

The **Norfolk County** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

## April 8, 2003 (IR&M Core Bond Fund)

16.08

In accordance with Investment Guideline 99-2, the Norfolk County Retirement Board is authorized to modify its fixed income mandate with Income Research & Management. First, in order to achieve operational efficiencies and lower fees, the account is changing from a separately managed account to a commingled fund, the IR&M Core Bond Fund. The management team and process remain the same. Second, the investment universe is being modified to focus on intermediate rather than long maturities, consistent with the Board's asset allocation objectives. The Board has had a successful relationship with IR&M since 1998 and has great confidence in their fixed income capabilities.

April 18, 2001 (Sentinel Realty Partners Fund IV & Corcoran Jennison Apartment Fund, Inc.)

The Norfolk County Retirement Board ("the Board") may maintain its current investment on behalf of the Norfolk County Retirement System with a real estate investment fund, as contemplated by 840 CMR 19.01(4)-(6), known as Sentinel Realty Partners Fund IV. Said investment arising after other prospective real estate managers identified through the competitive bidding process would not agree to the Board's contract consistent with PERAC requirements, and since the Board already maintained an ongoing relationship with Sentinel.

19.01

The Norfolk County Retirement Board ("the Board") may maintain its current investment on behalf of the Norfolk County Retirement System with a real estate investment trust fund, as contemplated by 840 CMR 19.01(4)-(6), known as the Corcoran Jennison Apartment Fund, Inc. ("the Fund"). Said investment subject to further Board action.

#### January 25, 2000 (Halpern Denny Fund III)

16.08

In accordance with PERAC Investment Guideline 99-3, the Norfolk County Retirement Board may invest in the Halpern Denny Fund III, L.P. The board is an investor in Halpern Denny Fund II, L.P. and has submitted the required supporting documents. This investment is contingent on the Fund's continuing compliance with ERISA and its accompanying regulations, including, but not limited to, those setting forth exemptions for plan assets such as a venture capital operating company ("VCOC").

## SUPPLEMENTARY INVESTMENT REGULATIONS

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

September 17, 1999 (Realty Associates Fund V Corporation)

19.01(6) Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations found at 840 CMR 16.00, et seq., the Norfolk County Retirement Board may invest funds of the Norfolk County Retirement System with a real estate investment trust fund, as contemplated by 840 19.01(4)-(6), known as Realty Associates Fund V Corporation ("the Fund") (T/A Associates). Said investment contingent on the Fund's continuing compliance with the Employee Retirement Income Security Act ("ERISA") and its accompanying regulations, including, but not limited to, those setting forth exemptions for plan assets such as a real estate operating company ("REOC") and a venture capital operating company ("VCOC").

### April 6, 1999 (Wilshire Associates Private Markets Fund II)

The Norfolk County Retirement Board (NCRB) may invest in the Wilshire Associates Private Markets Fund II (Wilshire). Wilshire is a so-called "fund of funds" manager and will, on behalf of NCRB, invest assets in private market investment funds, including, but not limited to buyout funds, venture capital funds, and distressed securities funds in accordance with a Subscription and Adoption Agreement between NCRB and Wilshire. Decisions of Wilshire as to the selection of investments will not be subject to approval by NCRB and those decisions will not be the result of a process overseen by NCRB. In selecting Wilshire NCRB carefully reviewed the process to be used in making those decisions and believes that process meets the requirements set forth in 840 CMR 16.08 with the exception of the fact that NCRB will not make the decisions. Wilshire will periodically report to NCRB as to the selections and the rational used in order that NCRB may assess whether Wilshire continues to follow the process approved by NCRB.

#### March 26, 1998 (Corcoran Jennison Apartment Fund)

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

## SUPPLEMENTARY INVESTMENT REGULATIONS

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

### February 2, 1998 (Triumph III Advisors, L.P.)

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
  - (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

#### December 18, 1997 (ERE Value Enhancement Fund III)

- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
  - (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

## SUPPLEMENTARY INVESTMENT REGULATIONS

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### <u>SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)</u>

December 18, 1997 (Phoenix Real Estate Advisors)

- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
  - (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

#### December 12, 1997 (Boston Millennia Partners L.P.)

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
  - (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

## SUPPLEMENTARY INVESTMENT REGULATIONS

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### <u>SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)</u>

# December 4, 1997 (First America Asia Fund I, LLC)

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
  - (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

### December 4, 1997 (Sentinel Realty Partners III, L.P.)

- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
  - (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

## SUPPLEMENTARY INVESTMENT REGULATIONS

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

## October 30, 1997 (Halpern Denny Fund II)

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
  - (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

#### September 12, 1997 (Redwood Capital Partners II)

- Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
  - (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

## SUPPLEMENTARY INVESTMENT REGULATIONS

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

June 20, 1997

- At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 7% of the portfolio valued at market.
- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
  - (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

### March 21, 1997 (New England Growth Fund II)

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
  - (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
  - (b) such personnel retain authority in the decision making process, and
  - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

# SUPPLEMENTARY INVESTMENT REGULATIONS

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

#### SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

#### March 6, 1997

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 7% of the portfolio valued at market.

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments

### July 25, 1996

20.06(10)

Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1) and PERA Regulations 840 CMR.

### January 25, 1996

840 CMR 21.00: Prohibited Investments

- (3) Futures Contracts other than as follows"
  - (a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERA for international investments.
  - (b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

#### October 26, 1995

20.03(1) Equity investments shall not exceed 69% of the portfolio valued at market, including international equities which shall not exceed 21% of the portfolio valued at market.

#### March 8, 1995

- 20.03(1) Equity investments shall not exceed 40% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

## SUPPLEMENTARY INVESTMENT REGULATIONS

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

### SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

#### March 10, 1994

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 20% of the Loomis Sayles Corporate Bond fixed income portfolio valued at market.

### June 30, 1993

- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Expenses for investment management and consulting services may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:
  - (a) 1% of the value of the fund for the first \$5 million; and
  - (b) 0.5% of the value of the fund in excess of \$5 million.
- 16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

### NOTES TO FINANCIAL STATEMENTS

#### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

### NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Norfolk County** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

# **NOTES TO FINANCIAL STATEMENTS** (Continued)

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The <u>Annuity Savings Fund</u> is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

# **NOTES TO FINANCIAL STATEMENTS** (Continued)

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

The <u>Annuity Reserve Fund</u> is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The <u>Special Military Service Credit Fund</u> contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The <u>Pension Fund</u> contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The <u>Pension Reserve Fund</u> contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The <u>Investment Income Account</u> is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Norfolk County** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 16, 2003

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c.7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

November 25, 1985

1. Part-time Employees

Permanent part-time employees working a minimum of twenty (20) hours per week must become members of Norfolk County Retirement System.

# **NOTES TO FINANCIAL STATEMENTS** (Continued)

# FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

### NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS - (Cont'd.)

### - (Cont'd.)

2. Part-time Permanent, Temporary, Provisional, Seasonal or Intermittent Employees. Anyone receiving weekly or monthly salaries or wages for prescribed periods of employment be given creditable service based on actual service rendered, provided that in case of any such employee whose work is found by the Board to be seasonal in its nature, the Board shall credit as the equivalent of one year of service actual full-time service of not less than seven (7) months during any one calendar year.

# **EXAMPLE:** Day = $7 \frac{1}{2}$ hours Week - $37 \frac{1}{2}$ hours

3. Call Firefighter and Special Police shall be excluded from membership as of May 29, 1957. Creditable service to Call Firefighters or Reserve or Special Police Officers, employed prior to May 27, 1957, shall be granted in proportion to the minimum salary paid for a regular permanent firefighter or a regular permanent police officer in the town affected. (\$4,000 earnings for one (1) year service to be used as basis.

#### 4. Call Fireman

One Year credit is to be granted for every five (5) years of service for Call Firemen up to a maximum of five (5) years of creditable service, <u>PROVIDED</u> that such service as Call Firemen shall only be credited if such Call Firemen were later appointed as a permanent member of the Fire Department.

- 5. Employees compensated on a per diem basis shall not be eligible for membership or creditable service.
- 6. The purchase or buy back of prior creditable service must be paid in one lump sum.
- 7. A member shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that creditable service shall be granted based on actual service rendered.

#### August 5, 1991

All members of the Norfolk County Retirement System who are employed in a position which is a "scheduled" twenty hour or more per week position are entitled to full time creditable service.

# **NOTES TO FINANCIAL STATEMENTS** (Continued)

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the County Treasurer who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Timothy P. Cahill

Appointed Member: Thomas Rorrie Term Expires: 12/31/2006

Elected Member: Josephine E. Shea Term Expires: 12/31/2004

Elected Member: Edwin S. Little Term Expires: 12/31/2005

Appointed Member: Paul J. Connors Term Expires: 12/31/2006

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian: ) \$ 1,000,000 Employee Dishonesty Ex officio Member: ) \$30,000,000 Fiduciary Liability

Elected Member: ) Travelers (\$10M Primary)

Appointed Member: ) Federal Insurance Co. (Chubb Group)

(\$10M Excess of Primary)

Staff Employee: ) Executive Risk Indemnity, Inc.

(\$10M Excess of \$20M)

# **NOTES TO FINANCIAL STATEMENTS** (Continued)

## FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

## NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PricewaterhouseCoopers, LLP** as of **January 1, 2000**.

The actuarial liability for active members was	\$287,483,533
The actuarial liability for retireed members was	246,476,437
The total actuarial liability was	533,959,970
System assets as of that date were	371,646,793
The unfunded actuarial liability was	\$ <u>162,313,177</u>
The ratio of system's assets to total actuarial liability was	69.6%
As of that date the total covered employee payroll was	\$163,542,978

The normal cost for employees on that date was 8.10% of payroll
The normal cost for the employer was 4.30% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum Rate of Salary Increase: 5.50% per annum

# GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2000

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)		Funded Ratio	Covered Payroll	UAAL as a % of Cov. Payroll	
Date	(a)	(b)		(b-a)	(a/b)	(c)	$((\mathbf{b}-\mathbf{a})/\mathbf{c})$	
1/1/2000	\$ 371,646,793	\$ 533,959,970	\$	162,313,177	69.6%	\$163,542,978	99.2%	
1/1/1997	\$ 258,771,070	\$ 392,463,080	\$	133,692,010	65.9%	\$126,219,194	105.9%	
1/1/1995	\$ 180,891,568	\$ 325,770,066	\$	144,878,498	55.5%	\$113,165,373	128.0%	
1/1/1993	\$ 151,546,609	\$ 291,472,940	\$	139,926,331	52.0%	\$107,482,975	130.2%	

# NOTES TO FINANCIAL STATEMENTS (Continued)

# FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

# NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	31	5	13	*	20	86	71	*	86	21
Ordinary Disability	3	1	3	*	0	2	3	*	7	C
Accidental Disability	3	3	16	*	0	7	9	*	16	C
Total Retirements	37	9	32	0	20	95	83	0	109	21
Total Retirees, Beneficiaries and Survivors	2,285	2,316	2,354	*	2,450	2,618	2,642	*	2,704	2,668
Total Active Members	4,211	4,398	4,518	*	5,254	5,348	6,334	*	6,844	7,103
<b>Pension Payments</b>										
Superannuation	\$11,375,824	\$12,103,133	\$12,770,924	\$13,517,716	\$14,440,790	\$16,243,845	\$17,310,985	\$18,915,381	\$28,094,431	\$21,754,856
Survivor/Beneficiary Payments	1,303,198	1,280,277	1,406,405	1,359,387	1,453,917	1,530,792	1,431,997	1,514,934	-	1,854,494
Ordinary Disability	432,463	427,599	459,136	429,089	436,640	466,720	463,516	538,941	-	567,918
Accidental Disability	2,517,672	2,766,178	3,205,878	3,457,959	3,634,103	3,830,148	4,261,388	4,329,707	-	5,394,757
Other	491,198	508,387	545,502	1,732,716	1,808,442	1,856,105	2,006,341	1,259,862	1,258,313	1,428,075
Total Payments for Year	\$16,120,355	\$17,085,574	\$18,387,845	\$20,496,867	\$21,773,892	\$23,927,610	\$25,474,227	\$26,558,826	\$29,352,744	\$31,000,100
* = Data was unavailable										<u></u>